

## DEPARTMENT OF FINANCE BILL ANALYSIS

**AMENDMENT DATE:** 08/16/2021  
**POSITION:** Oppose  
**SPONSOR:** California Student Aid Commission

**BILL NUMBER:** AB 1456  
**AUTHOR:** Medina, Jose  
**RELATED BILLS:** AB 132 (Committee on Budget)

### **BILL SUMMARY: Student financial aid: Cal Grant Reform Act.**

This bill revises and recasts the Cal Grant Program commencing October 1, 2022, for students receiving new Cal Grant awards beginning with the 2023-24 academic year.

### **FISCAL SUMMARY**

The California Student Aid Commission (CSAC) estimates revising the Cal Grant Program will create ongoing and one-time General Fund costs of up to \$82.6 million and \$57.8 million, respectively, to support newly eligible students and to enable existing Cal Grant recipients to retain their awards during the Program's transition. However, Finance estimates the ongoing General Fund costs would be approximately \$174.4 million above current appropriation levels, because CSAC's estimate uses base costs that differ from current appropriation levels, assumes ongoing General Fund support for the Cal Grant program increases by 5 percent between fiscal years 2021-22 and 2022-23, and assumes ongoing General Fund support for the students with dependent children access awards increases by 9 percent between fiscal years 2021-22 and 2022-23.

Additionally, CSAC estimates ongoing and one-time General Fund costs of \$375,261 and \$1.1 million, respectively, to support the revised Program's administrative costs. Any request for resources to implement this bill will be evaluated during the annual budget process.

The California State University (CSU) indicates that this bill's elimination of the Cal Grant B access award will result in cost pressures of approximately \$400 million to replace non-tuition assistance that CSU students otherwise would have received under the Cal Grant B Access Award, including \$19 million to support eligible new CSU students resulting from estimated enrollment increases. However, it is unclear if these cost pressures would be offset by enabling more CSU students to qualify for a Cal Grant entitlement award.

The California Community Colleges (CCC) Chancellor's Office indicates this bill results in minor and absorbable costs, but notes that it could result in prorated Student Success Completion Grant awards if that program's existing appropriation is unable to fund maximum awards for all eligible students.

The University of California (UC) indicates that this bill results in minor and absorbable costs.

Additionally, Finance notes that this bill includes intent language to enact additional expansions of the Cal Grant program in the future, resulting in significant General Fund cost pressures that are likely in the hundreds of millions of dollars.

Analyst/Principal (371) Bruns, Brianna	Date 08/18/ 2021	Program Budget Manager Ferguson, Chris	Date 08/20/2021
Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
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**COMMENTS**

The Department of Finance is opposed to this bill for the following reasons:

- This bill results in significant one-time and ongoing General Fund costs and cost pressures not included in the 2021 Budget Act, likely in the hundreds of millions of dollars annually.
- Applying automatic cost-of-living adjustments to Cal Grant 2 entitlement awards will create annual ongoing General Fund costs in the tens of millions to hundreds of millions of dollars.
- The 2021 Budget Act significantly increased support for student financial aid by providing:
  - \$235.1 million ongoing General Fund to expand community college student eligibility for a Cal Grant award by eliminating the program's age and time-out-of-high-school requirements and to provide support for newly eligible CCC students that also qualify for the students with dependent children supplemental access award. Additionally, these students would be able to keep their awards upon transfer to a CSU or UC.
  - \$515 million ongoing General Fund beginning in 2022-23, for a combined total of \$632 million, to support a modified version of the Middle Class Scholarship program that will focus resources toward reducing a student's total cost-of-attendance.
- This bill assumes specified institutions of higher education will use, or have available for use, institutional aid to support student's non-tuition costs associated with eliminating Cal Grant Access Awards. Relying upon institutional aid to further support non-tuition costs could create pressure for institutions to increase tuition and mandatory fees and create General Fund cost pressures to provide additional support via the Middle Class Scholarship Program. Further, to the extent that postsecondary institutions increase tuition and fee levels, the overall cost of the Cal Grant program will increase, as a portion of the program is tied to tuition costs.
- The bill includes intent language to enact additional expansions of the Cal Grant program in the future, resulting in significant ongoing General Fund cost pressures that would likely be in the hundreds of millions of dollars.
- Although students currently receiving a Cal Grant award are grandfathered into the program, aligning the program's income and asset qualifications to mirror the federal Pell Grant income threshold will result in some future cohorts of students becoming ineligible for a Cal Grant award. CSAC estimates that roughly 38,000 students currently receiving Cal Grant awards would not meet the revised program's income and asset qualifications.
- The bill includes an unspecified date on which the existing program would sunset date, and indicates the existing program's sunset would be considered through the annual budget process. It is unclear if this provision could enable both the existing and proposed Cal Grant entitlement programs to be operational at the same time.

Finance also notes that this bill inadvertently chapters out several provisions of law that were enacted pursuant to Chapter 144 of the Statutes of 2021 (AB 132, Postsecondary Education Trailer Bill).

**ANALYSIS**

## 1. Programmatic Analysis

***Current Cal Grant Program***

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**ANALYSIS** (continued)

Under current law, the Cal Grant Entitlement Program guarantees a Cal Grant A or B Entitlement Award to graduating high school seniors and transferring community college students who meet specified academic and financial need requirements. The Cal Grant A provides funding to cover tuition and fees, while the Cal Grant B covers tuition and fees for three years and provides an annual access award for living expenses. The Cal Grant Program also provides a Cal Grant C to students pursuing an occupational or technical program. Students with financial need who are not eligible for the Entitlement Award may compete for a limited number of Competitive Cal Grant A and B Awards.

The 2021 Budget Act established the California Community College Expanded Entitlement Awards to provide Cal Grant A or B Awards to CCC students who previously did not qualify for an Entitlement Award due to age and time-out-of-high-school requirements. Students who qualify for these awards may subsequently transfer to a UC or CSU campus and remain eligible to receive the award.

The 2021 Budget Act modified the existing Middle Class Scholarship program to focus resources toward reducing a student's total cost of attendance. These awards will enable eligible students to reduce their need to borrow resources to finance their education.

Current Cal Grant recipients attending a UC, CSU, or CCC campus and who have dependent children may be eligible for an annual access award of up to \$6,000. Similarly, the 2021 Budget Act increased access award amounts for current and former foster youth to up to \$6,000. Lastly, Cal Grant B recipients receive an access award of \$1,648 each year.

***Cal Grant Reform Act – Cal Grant 2 and Cal Grant 4***

This bill grandfathers in existing Cal Grant A, B, and C Entitlement and Competitive Awards for current recipients until the expiration of their award eligibility and otherwise makes the current Cal Grant financial aid program inoperable on an unspecified date. This bill eliminates all existing Cal Grant financial aid programs except for the California Dreamer Service Incentive Grant Program and the Awards for Students with Dependent Children.

In place of the existing Cal Grant program awards, this bill establishes the Cal Grant 2 and the Cal Grant 4. The Cal Grant 2 would serve students enrolled in a degree, certificate, or transfer program at a community college. The Cal Grant 4 would serve students enrolled in any qualifying institution other than a community college.

To qualify for a Cal Grant 2 award, a student must:

- Qualify as a California resident;
- Submit a Free Application for Federal Student Aid (FAFSA) or California Dream Act Application (CADAA);
- Enroll at a community college at least half-time and maintain satisfactory academic progress;
- Establish eligibility based on household income or other circumstances that would qualify the student for a maximum federal Pell Grant award.

In the first award year, this bill creates a Cal Grant 2 access award for non-tuition expenses of

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**ANALYSIS** (continued)

no less than the per-student amount provided in the 2020-21 award year. The bill requires CSAC to adjust the access award to reflect growth in the CPI in subsequent years, unless the Director of Finance suspends the CPI adjustment for a year in which the May Revision projects a state budget deficit.

To qualify for a Cal Grant 4 award, a student must:

- Qualify as a California resident;
- Submit a FAFSA or CADAA application;
- Have at least a 2.0 GPA;
- Enroll at a qualifying institution; and
- Have a household income below specified percentages of the federal poverty level.

The Cal Grant 4 award will cover the cost of tuition and mandatory systemwide fees at public institutions. Awards for students attending independent institutions will be based on whether independent institutions meet specified ADT targets.

Effectively, the bill expands Cal Grant program eligibility compared to current law as follows:

- Removes the time-out-of-high-school requirement for incoming freshmen attending four-year institutions;
- Removes the age cap for CCC students transferring to private institutions;
- Removes the age cap for CCC students transferring to public institutions, but who did not receive a Cal Grant while at CCC; and
- Modifies GPA requirements by eliminating a minimum GPA for Cal Grant 2 eligibility and lowering the GPA requirement for Cal Grant 4 eligibility, compared to the current Cal Grant program.

***Associate Degrees for Transfer and Independent Institutions of Higher Education***

This bill amends the methodology used under current law for independent postsecondary institutions to maintain the existing maximum Cal Grant award levels for their students by meeting annual Associate Degree for Transfer (ADT) targets.

The 2021 Budget Act established a maximum Cal Grant award of \$9,220 for students attending independent institutions. Chapter 144, Statutes of 2021 (AB 132) requires independent institutions to meet specified annual ADT targets to maintain this maximum Cal Grant award level in subsequent years. For instance, to maintain a maximum Cal Grant award of \$9,220 for the 2023-24 award year, current law requires independent institutions to provide at least 3,500 ADT commitments to transfer students accepted in the prior award year.

Beginning in the 2023-24 award year, the bill creates an alternate ADT target for independent institutions as a condition for students attending these institutions to receive a maximum Cal Grant award of \$9,084. If institutions fail to achieve the ADT goal, students attending these

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**ANALYSIS** (continued)

institutions will receive a maximum award of \$8,056. We would note that this provision inadvertently chapters out an increased maximum award of \$9,220 for meeting specified ADT targets that was enacted pursuant to Chapter 144 of the Statutes of 2021 (AB 132, Postsecondary Education Trailer Bill).

Specifically, beginning in the 2023-24 award year, this bill eliminates the annual ADT targets and instead requires independent institutions to increase the number of ADT students annually, adjusted by the percentage change in the total number of new transfer students from two years prior, compared to the prior year. Effectively, this provision lowers the expected number of ADT students that independent institutions must annually accept to maintain the larger maximum Cal Grant award. This provision could dampen near-term support for the creation of more ADTs and the acceptance of more ADT students at independent institutions.

***Requirements for Cal Grant Participating Institutions***

This bill states legislative intent specifying:

- That an institution of higher education should first focus available institutional aid toward addressing the non-tuition costs incurred by high need students.
- The UC and CSU should supplement and not supplant available institutional aid using available Cal Grant resources.
- The UC and CSU should maintain, at minimum, their 2021-22 academic year level of need-based institutional financial aid provided to undergraduate students, excluding loans. It is unclear how variations in student enrollment over time would affect the level of institutional aid available at each campus to support students' non-tuition costs.

The bill requires the CSU Trustees, and requests the UC Regents, to adopt a statement of policy regarding how their institutional aid programs address student basic needs and how these institutional funds are prioritized for disbursement. The bill does not require a similar action by other institutions participating in the Cal Grant program.

Additionally, this bill establishes various annual reporting requirements for institutions participating in the Cal Grant program.

***Additional Provisions***

This bill also:

- Includes intent language to enact subsequent legislation to further expand the Cal Grant 2 and Cal Grant 4 by expanding income eligibility, increasing the base award amount for the Cal Grant 2, establishing a statutory formula award for the Cal Grant 4 award for students attending private nonprofit institutions, and authorizing students to receive Cal Grant 2 and 4 awards in summer terms without impacting lifetime Cal Grant eligibility.
- Appears to inadvertently chapter out statutes regarding the Community College Expanded Entitlement Program, Middle Class Scholarship program, and foster youth eligibility for an enhanced Cal Grant Access award that were enacted pursuant to

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**ANALYSIS** (continued)

Chapter 144 of the Statutes of 2021 (AB 132).

- Requires CSAC to develop regulations, including emergency regulations as specified.
- Makes conforming changes to various code sections.

Finance notes that further expansion of the Cal Grant 2 and Cal Grant 4 programs as described in the bill's intent language would create additional General Fund cost pressures, likely in the hundreds of millions of dollars annually.

Finance notes that Control Section 12.35 of the 2021 Budget Act precludes CSAC from implementing any change in policy or practice that would result in a fiscal effect exceeding \$5,000,000 unless the change is first approved by the Director of Finance and notification is provided to the Legislature.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)					
	LA	(Dollars in Thousands)					
	CO RV	PROP 98	FC	2021-2022 FC	2022-2023 FC	2023-2024 Code	Fund
6980/Student Aid	LA	No	C	232,281 C	174,440 C	174,440 0001	
6980/Student Aid	SO	No	C	1,475 C	375 C	375 0001	